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NEUSOFT XIKANG HOLDINGS INC.

東軟熙康控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9686)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

FINANCIAL HIGHLIGHTS

	Year ended December 31,		Change
	2023	2022	
	<i>RMB million</i>	<i>RMB million</i>	
Revenue	537.7	687.4	(149.7)
Gross profit	164.6	168.5	(3.9)
Gross margin	30.6%	24.5%	6.1%
Loss for the year	(154.9)	(243.3)	88.4
Add: Share-based compensation expenses	29.8	79.2	(49.4)
Add: Interest expenses for financial liability for redeemable rights	9.7	17.2	(7.5)
Adjusted net loss for the year (non-HKFRS measure)	(115.4)	(146.9)	31.5

The board (the “**Board**”) of directors (the “**Director(s)**”) of NEUSOFT XIKANG HOLDINGS INC. (the “**Company**” or “**we**”, “**us**” or “**our**”) is pleased to announce the audited consolidated results of the Company, its subsidiaries and the consolidated affiliated entities controlled under the contractual arrangements (together, the “**Group**”) for the year ended December 31, 2023 (the “**Reporting Period**”), as well as the comparative figures for the same period in 2022. The above annual results have been extracted from our consolidated financial statements prepared in accordance with Hong Kong Accounting Standards, and have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

During the Reporting Period, we recorded a total revenue of RMB537.7 million (2022: RMB687.4 million), representing a year-over-year decrease of 21.8% as compared to 2022 due to the impact of the macro market and post-pandemic era, as well as the Company’s continued optimization of business structure. During the Reporting Period, focusing on the businesses that have high synergy with our strategies, we continued to adjust the business structure, which resulted in a year-over-year increase of 6.1 percentage points in our gross margin to 30.6% (2022: 24.5%). During the Reporting Period, we carried on optimizing resource allocation and reinforced the monitoring of our input-output ratio, which resulted in reducing our net loss by 36.3% to RMB154.9 million (2022: RMB243.3 million).

CHIEF EXECUTIVE OFFICER’S STATEMENT

Internet medical services were more widely recognized and rapidly developed in 2023. People are getting used to seeking medical advice through digital healthcare services. The Chinese government has been releasing numerous favorable policies to vigorously prop up the broader expansion of digital healthcare scenarios, which has injected a powerful impetus into our rapid and sustainable development. During the Reporting Period, with adjustment to the structure of business operations, our medical services have accounted for a larger portion of the overall business operations and recorded a year-on-year growth of 14.3%. The number of hospitals providing services through our cloud hospital platforms grew by 7.4%, while the number of doctors and nurses on our cloud hospital platforms grew by 14.7% and 81.2%, respectively. The number of our healthcare service products reached 96, and the volume of our home care services amounted to over 150,000. Generally, the overall business operations have been developing soundly.

As a pioneer and promoter of city-specific cloud hospital platforms in China, we believe that there will be a stronger demand for safe, reliable and high-quality home healthcare services after China rapidly ushers in an aging society with a low birthrate. We are committed to the basic assurance of quality, reliability and safety through the “city-specific cloud hospital platform” model and creating an active ecosystem that motivates its participants by empowering medical stakeholders. During this process, centering on the health needs of the common residents, we tirelessly promote innovation in the service scenario and content of “medical care, nursing service and health care” and create sustainable value for Shareholders and society while continuously providing users with premium healthcare services.

Expediting the Development of our City-specific Cloud Hospital Platforms and Creating a New Urban Healthcare Services Ecosystem

In 2023, we further deepened the strategy of “city-specific cloud hospital platform” and quickly promoted the development of our city-specific cloud hospital platforms by leveraging the strategic advantages of the established city-specific cloud hospital platforms. Our client base has been expanded from municipal governments to provincial governments with greater administrative scope and authority, which has enabled high-quality healthcare services to be accessible to a wider range of residents. In 2023, we mainly cooperated with the provincial governments of Zhejiang Province, Jiangsu Province and Henan Province. During this process, we continued to try new collaborations with provincial governments and actively explored the provision of more extensive medical and care services for the residents in these provinces.

Over the past year, alongside the partnerships with some governments at the municipal level, and considering large public hospitals are the core providers of medical services in China, we consecutively built up cooperation with such hospitals and boosted their willingness of cooperation by actively implementing various measures such as policy guidance, performance assessment, and operations expansion. Focusing on the scenarios where patients seek medical advice, we worked with the hospitals and successively introduced services such as self-service appointment for medical examination and testing, self-service appointment for hospitalization, mobile payment on the medical insurance and post-hospitalization follow-up assessment to continuously help the hospitals build a new integrated healthcare service system covering in-hospital and out-of-hospital services from offline to online, thus improving patients’ medical experience and treatment efficiency of the hospitals.

In 2023, we continued improving the city-specific cloud hospital platforms' systems for supply chains of medicines, medical devices, consumables, logistics, etc. In 2023, we upgraded our cooperation with partners based in Zhejiang Province, Liaoning Province and other provinces through enhanced industrial cooperation. In the process of creating a new urban healthcare services ecosystem, our powerful platform-enabled industrial ecosystem has taken shape.

Leading the Standardization Development of the Home Medical Care Industry by Relentlessly Promoting Business Innovation

In 2023, we took the initiative to drive innovation in Internet healthcare service models. Over the past year, we continued to urge the government authorities to establish sound standards and norms for home care services, the competent health authorities, medical insurance authorities and other related authorities to issue relevant policy documents, and the competent authorities of care services to formulate unified home medical care service standards. Hence the unified provincial and municipal norms for management systems, service models and standards, operation mechanisms, training systems, etc. can be established, enabling the residents to enjoy unified quality of home medical care services within a city. Over the past year, multiple home medical care industry standards jointly developed by us together with many government authorities and associations in Zhejiang Province have been highly recognized by the National Health Commission (NHC) and other authorities and their officials, leading the high-quality development of the home medical care industry.

Over the past year, based on users' needs, we continuously impelled the scenario innovation for our services ranging from in-hospital to at-home and from offline to online to constantly enrich our home medical care services. We have launched 61 types of home care services grouped under three categories in Zhejiang Province and 71 types of home care services falling under nine categories in Henan Province in order to meet the diversified medical care needs of users like elderly users, maternal and child users, and post-surgery users. In 2023, we continually enhanced medical quality management, medical safety management and other aspects and bolstered the quality of our home medical care services.

Proactively Assuming Corporate Social Responsibility by Empowering Healthcare Stakeholders to Create Value

We undertake the mission of driving healthcare transformation through information technology and persist in empowering healthcare stakeholders to create value. Over the past year, continually leveraging our advantages in technology and operation, we fulfilled corporate social responsibility by supporting medical aid and patient assistance, joining hands with local governments and hospitals to offer voluntary medical consultation for nursing homes, schools and other institutions, and providing free-of-charge online medical consultation. We proceeded with the promotion of health-related charitable undertakings by providing our public welfare resources. "Care in Zhejiang" ("浙里護理"), a service platform that we operate, was honored as one of the "Top 10 Influential Events" in Zhejiang Health for 2023 (《浙江衛生健康 2023 年度“十大有影響力事件”》).

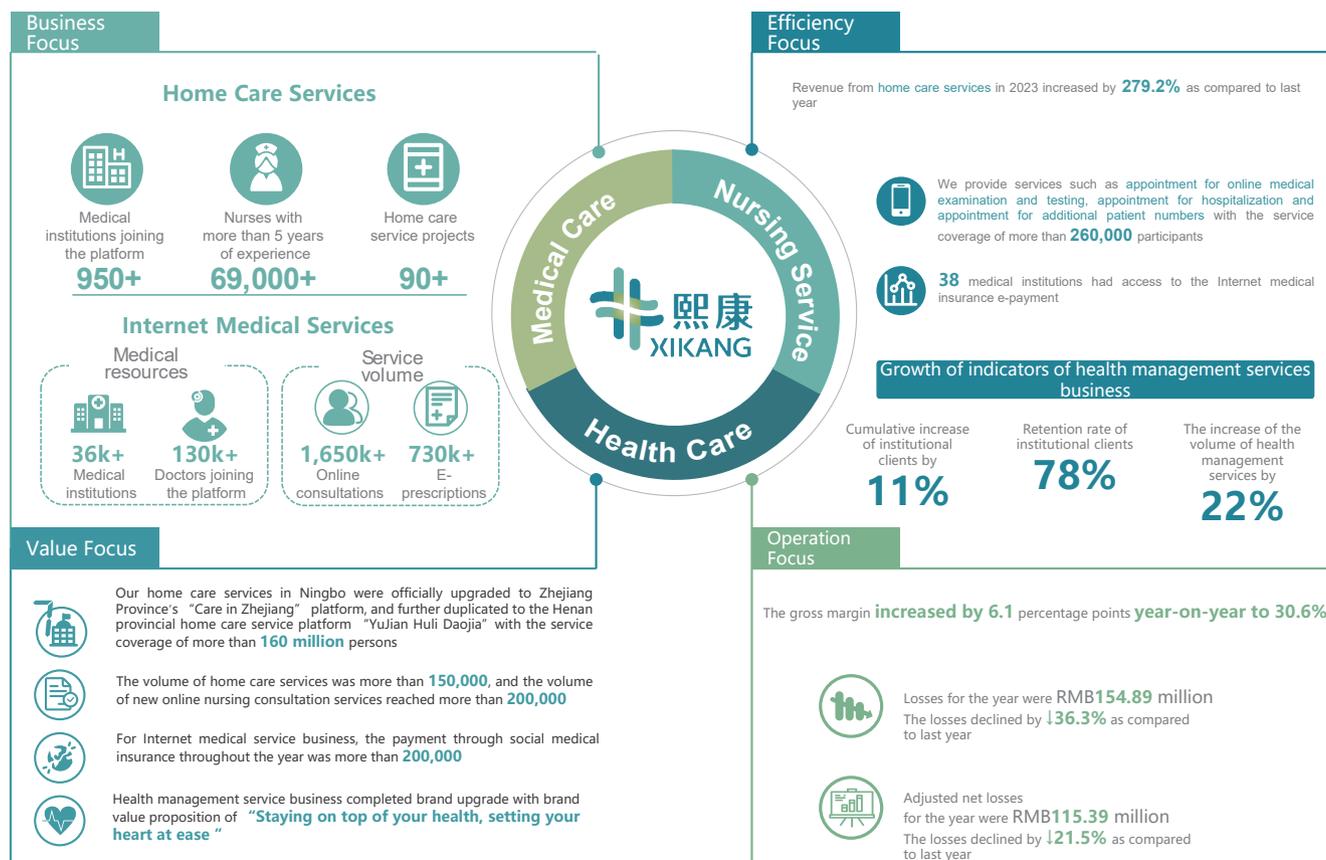
The development of health undertakings is essential to people's livelihood. The commercialization path we have taken is long and arduous, but we always believe that this path fits more with China's actual conditions. Looking forward to 2024, to better serve various medical stakeholders, facilitate the development of the industry, reward our Shareholders and give back to society, we will uphold the mission of "driving healthcare transformation through information technology", remain dedicated to "empowering medical stakeholders to create value", and follow the strategy model of "city-specific cloud hospital platform".

ZONG Wenhong

Chief Executive Officer and Chief Medical Officer

March 20, 2024

FOCUSING ON BUSINESS HIGHLIGHTS UNDER THE STRATEGY



I. BUSINESS REVIEW

BUSINESS MODEL OF "CITY-SPECIFIC CLOUD HOSPITAL PLATFORM"

We continued to build a unique business model of "city-specific cloud hospital platform". We help governments build and operate city-specific cloud hospital platforms that connect local governments, medical institutions, patients and insurers. These platforms enhance the equity of access to medical resources through the coordinated allocation of urban medical resources and realize efficient delivery and sustainable development of healthcare through innovations in healthcare service model.

During the Reporting Period, we continued to cultivate the markets in Eastern China, Northern China and Southern China, thus further expanding our city-specific cloud hospital platform network.

We have benefited from our advanced experience in building and operating the Ningbo Cloud Hospital platform. At the end of 2022, thanks to Zhejiang Province's macropolicy of promoting digital reform, the home care services module of our Ningbo Cloud Hospital platform was recognized as a major application in the field of digital society system by Zhejiang Province's Leadership Group for Digital Reform, and our Ningbo-based home care platform was officially upgraded to Zhejiang Province's "Care in Zhejiang" platform, the only provincial-level home care service platform designated by the provincial government of Zhejiang. Users and residents in Zhejiang Province can conveniently access to home care and other services through the "Care in Zhejiang" app and apps of various hospitals. To deepen the promotion of "Care in Zhejiang" app, the Health Commission of Zhejiang Province, together with various municipal governments in Zhejiang Province, has issued relevant policies, including the Implementation Plan for Deepening the Promotion of "Care in Zhejiang" App in Zhejiang Province (《浙江省深化推廣“浙里護理”應用實施方案》) issued by the Office of the Health Commission of Zhejiang Province and other policy documents.

In 2023, we collaborated with the Health Commission of Zhejiang Province and other government authorities to accelerate the construction and operation of "Care in Zhejiang", the connection of various cities and medical institutions in Zhejiang Province to the platform, and the provision of home care services by nurses. As of December 31, 2023, all public hospitals of Class II and above in Zhejiang Province have joined "Care in Zhejiang", which has realized full coverage of 11 cities in Zhejiang Province within one year, more than 570 medical institutions and 45,000 nurses with more than 5 years of clinical care experience have joined the platform, and the number of the nurses who have joined the platform accounted for 18.1% of the registered nurses in Zhejiang Province. In 2023, the volume of home care services provided by "Care in Zhejiang" exceeded 120,000, representing an increase of 295.6% as compared to the same period of the previous year (2022: 30,000), and the volume of new nursing consultation services reached 200,000.

During the Reporting Period, we continued to strengthen the construction and operation in Ningbo, cities in Jiangsu Province and other regions of Eastern China, and continually promoted the innovation of service scenarios from in-hospital to at-home and from offline to online, and constantly enriched the offering of medical, care and other services. As of December 31, 2023, the Ningbo Cloud Hospital platform had 45 Internet hospitals, 16,000 doctors and 11,000 nurses with more than 5 years of clinical care experience, respectively, the volume of Internet medical services was more than 1.5 million, and the volume of home nursing care services was more than 50,000, further developing our Internet medical service model in Ningbo. As of December 31, 2023, the Jiangsu Province Internet hospital platform, which was jointly constructed and operated by us and the Jiangsu provincial government authorities, had 159 hospitals and 52,000 doctors, and the service volume of the platform Internet hospitals exceeded 780,000.

In the second half of 2023, based on our sound brand recognition in China's home care industry, we formally cooperated with the Henan Provincial Government on home care, and assisted the Henan Provincial Government in building and operating the Henan provincial home care service platform "YuJian Huli Daojia" ("豫健護理到家"). On October 23, 2023, the Henan Provincial Government officially issued the policy document "Notice on the Issuance of the Implementation Plan for the Popularization and Application of the "YuJian Huli Daojia" Service Platform in Henan Province" ("關於印發《河南省推廣應用“豫健護理到家”服務平台實施方案》的通知"), which requires the selection of Zhengzhou, Luoyang, Pingdingshan, and Xuchang as pilot cities to carry out home care services. As of December 31, 2023, 54 medical institutions and more than 5,600 nurses with more than 5 years of clinical care experience have joined the Henan Province's "YuJian Huli Daojia" service platform.

During the Reporting Period, we continued to strengthen the operation of remote medical services in Shenyang, and constantly provided imaging, maternity and childcare, oncology and other medical services for primary medical institutions and users in Shenyang through leveraging on the resources of high-quality subject specialists in large-sized hospitals in Shenyang. The volume of remote medical services in Shenyang exceeded 910,000 in 2023 (2022: 610,000). During the Reporting Period, we, in conjunction with Shenyang municipal governmental departments, continued to promote the development of home care services in Shenyang. On November 8, 2023, Shenyang Municipal Government formally issued the Work Implementation Plan of Shenyang Municipal “Internet + Care Service” (for Trial Implementation) (《瀋陽市“互聯網+護理服務”工作實施方案(試行)》). As of December 31, 2023, 57 medical institutions carried out home care services and more than 1,700 nurses with more than 5 years of clinical care experience have joined the platform.

During the Reporting Period, we focused on enhancing the construction of cloud hospital platforms in some cities such as Chongqing and Nanning in Southern China, and continually invested technical resources to enhance the functionality, reliability and product experience of the cloud hospital platforms.

During the Reporting Period, we operated the following business segments:

	Years ended December 31,			
	2023		2022	
	Revenue	%	Revenue	%
	<i>(RMB in thousands, except for percentages)</i>			
Cloud hospital platform services	97,755	18.2	122,369	17.8
Internet medical services	157,554	29.3	137,834	20.1
Health management services	245,915	45.7	209,199	30.4
Smart healthcare products	36,491	6.8	218,013	31.7
Total	537,715	100.0	687,415	100.0

Cloud Hospital Platform Services

The cloud hospital platform is the foundation of our city-specific cloud hospital platform strategy model. During the Reporting Period, we continued to adhere to our market strategy of accelerating the cooperation with medical institutions with local governments as the core breakthrough.

Local governments are the policy-makers, regulators and payers of China’s health industry. Government customers are one of the core pipelines of our business and our unique competitive advantage. We continue to tap into the advantages of us and our business partners in terms of advanced technology, experience, resources and customer base, and continue to strengthen the collaboration with existing government customers and the expansion of new government customers.

During the Reporting Period, we focused on reinforcing cooperation with provincial and municipal governmental departments, and strengthening our efforts to enable medical institutions within the jurisdiction to join the platform more quickly by promoting the introduction of policies from governmental departments, so as to provide residents within the region with convenient, accessible and high-quality Internet medical services. It only took us one year to expand the coverage of “Care in Zhejiang” platform from Ningbo city to 11 cities in Zhejiang Province with more than 570 medical institutions joining the platform by enhancing our cooperation with the provincial government of Zhejiang.

During the Reporting Period, we thoroughly enhanced our collaboration with medical institutions, and continued to promote medical institutions to join our platform in a faster and more economical way. We continued to invest in technical resources to upgrade our cloud hospital platform and optimize product experience, so as to facilitate medical institutions to build a new integrated healthcare services system from offline to online. During the Reporting Period, we launched product upgrades for self-service appointment for medical examination and testing, self-service appointment for hospitalization, mobile payment on the medical insurance and post-hospitalization follow-up assessment, which further demonstrated that hospitals optimized the patients’ medical treatment process to and improve the efficiency of their medical treatment, and facilitate the in-depth integration of new-generation information technology and medical services. As of December 31, 2023, 151 Internet hospitals (2022: 99) joined the platform.

As of December 31, 2023, the number of medical institutions connected to our platform was 36,000, of which the number of hospitals was 2,610 and the number of primary medical institutions was 33,000. During the Reporting Period, the number of paying medical institutions was 491, representing an increase of 238.6% as compared to the same period of the previous year (2022: 145).

During the Reporting Period, the revenue generated from cloud hospital platform services amounted to RMB97.8 million, representing a decrease of 20.1% from RMB122.4 million in the previous year, mainly attributable to fewer project opportunities in the post-epidemic era and delays in project execution with local governments. The following table sets forth a breakdown of our revenue from the cloud hospital platform services by type of customer for the periods indicated:

	Year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Local governments	19,055	19.5	61,171	50.0
Medical institutions	62,641	64.1	48,363	39.5
Others	16,059	16.4	12,835	10.5
Total	97,755	100.0	122,369	100.0

Internet Medical Services

Focusing on patients’ health, we have further strengthened the collaborative co-development of online hospital services, family doctor services and remote medical services, continued to strengthen our cooperative operations with hospitals and doctors, continuously enriched the content of our Internet medical services, and continually improved our medical efficiency, so as to create more convenient integrated user experience from offline to online for our users.

During the Reporting Period, we still insisted on strengthening the development of Internet medical services on the city-specific cloud hospital platforms, largely promoted the development of Internet medical services in large-sized hospitals, and further enhanced the motivation of medical institutions and doctors. For medical institutions, we continued to strengthen cooperation with the government to enhance the motivation of medical institutions through upgrading hospital performance assessment, etc. For doctors, we continued to strengthen cooperation with hospitals to enhance the motivation of doctors to carry out Internet medical services through the dual mechanism of performance assessment and incentives. As of December 31, 2023, the Ningbo Cloud Hospital platform had 45 Internet hospitals, and the volume of Internet medical services exceeded 1.5 million, representing an increase of 114.2% as compared to the same period of the previous year (2022: 0.7 million). In 2023, the volume of Internet medical services carried out by Ningbo city-level Internet hospitals accounted for 53% of the total volume of the city's Internet medical services.

We are constantly committed to providing users with more convenient and higher-quality Internet medical services. We take “integrated medical services from offline to online” and “pre-hospital, in-hospital and post-hospital full-cycle medical management” as the breakthroughs to continuously optimize the process of medical services, and constantly enrich the scenarios and contents of Internet medical services. During the Reporting Period, we largely promoted the examination and test-booking services in Ningbo, and the volume of examination and test-booking services in Ningbo amounted to 260,000 in 2023, representing an increase of 233.3% as compared to the same period of the previous year (2022: 78,000). At the beginning of 2023, Ningbo Cloud Hospital platform further accessed medical social insurance payment for Internet hospital services, and patients with 26 chronic diseases could use Ningbo social health insurance payment after using Internet hospital services. As of December 31, 2023, 37 of the 45 Internet hospitals stationed on the Ningbo Cloud Hospital platform had accessed medical social insurance payment.

During the Reporting Period, our online hospital services maintained a steady growth. There were 130,000 doctors joining our platforms as of December 31, 2023 (2022: 113,000). In 2023, the volume of our online consultation services was 1.65 million, which maintained basically unchanged as compared to the same period of the previous year (2022: 1.67 million); the volume of our e-prescription services was 730,000, representing a decrease of 13.1% as compared to the same period of the previous year (2022: 840,000).

With a wide range of medical resources and a sound operation system, we have been continuously strengthening the construction and operation of medical specialty consortiums and promoting the medical collaboration between primary urban family doctors and specialists at large-sized hospitals. On the basis of our full insight into the medical needs of urban family doctors and the distinctive discipline advantages of different hospitals, we have promoted the construction of a multi-level remote medical collaboration system that is based on primary urban family doctors, supported by specialists at large-sized hospitals and centered on regional well-known experts in the disciplines, with disciplines such as medical imaging, obstetrics and gynecology, cardiovascular and cerebrovascular medicine, and oncology as links. As of December 31, 2023, the volume of our remote medical services was 1.45 million, representing an increase of 36.3% as compared to the same period of the previous year (2022: 1.06 million).

Home Care Services Growing at a Rapid Pace

Home care services are serious medical services in China, subject to compulsory access requirement and supervision by government authorities. In order to promote the rapid development of our home care services, we comprehensively strengthen cooperation with government authorities at all levels in China and promote the establishment of a sound home care service system by urban medical institutions at all levels that can benefit more urban residents. As of December 31, 2023, our home health care services covered 950 medical institutions across the country, and the number of the nurses with more than 5 years of clinical care experience who have joined our platforms reached 69,000 (2022: 38,000). Owing to our proven experience in the construction and operation of Internet care platforms, we are currently mainly responsible for the construction and operation of Internet care platforms of Zhejiang Province, Henan Province and other provincial governments.

We constantly explore the innovation of home care model and promote government authorities to establish sound standards and system of home care services. During the Reporting Period, we further promoted the urban health authorities and medical insurance authorities to issue relevant policy documents, so as to establish a unified urban management system, service model, service standards, operation mechanism, training system and other standards and build a sound “large-sized hospitals – grassroots communities – home” care service chain, so that residents can enjoy the same service quality of home care services in the same city.

On the basis of full insight into the needs of different populations for home care, we continue to innovate our home care services to meet the needs of the elderly, women and children, and postoperative people for more abundant and more diversified care. In Zhejiang Province, we have carried out 61 home care services in three categories: health promotion, common clinical care and specialist care. In Henan Province, we have carried out 71 home care services in nine categories: common clinical care, health promotion guidance, specialist care guidance, intravenous therapy care, peritoneal dialysis care, wound and ostomy care, eye care, maternal and infant care, and traditional Chinese medicine care.

During the Reporting Period, we constantly optimized the home care service process and improved the service quality to provide users with higher-quality home care services. Before the home care service projects were launched, we, together with urban competent authorities of care services, formulated unified home care service standards, including the system and process of home care services, the training outline of service items and the quality evaluation indicators of service items, etc., and continuously improved the service ability and professional skills of visiting nurses through training, especially their capabilities of emergency aid and emergency responses, so as to continuously improve the quality of home care services.

During the Reporting Period, our home care services have maintained robust growth. As of December 31, 2023, the volume of home care services we provided exceeded 150,000, representing an increase of 185.9% as compared to the same period of the previous year (2022: 54,000), among which the volume of home care services in Zhejiang Province we provided exceeded 120,000, representing an increase of 295.6% as compared to the same period of the previous year (2022: 30,000). In 2023, the volume of innovative online care consultation services that we launched in Zhejiang Province reached 200,000.

During the Reporting Period, the revenue generated from our home care services amounted to RMB22.7 million, representing an increase of 279.2% from RMB6.0 million in the same period of the previous year.

During the Reporting Period, the revenue generated from Internet medical services amounted to RMB157.6 million, representing an increase of 14.3% from RMB137.8 million in the same period of the previous year. The following table sets forth a revenue breakdown by business line of the Internet medical services segment for the periods indicated:

	Year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Online hospital services	116,760	74.1	117,972	85.6
Remote medical services	18,078	11.5	13,871	10.1
Smart family doctor services	-	-	-	-
Home care services	22,716	14.4	5,991	4.3
Total	<u>157,554</u>	<u>100.0</u>	<u>137,834</u>	<u>100.0</u>

Health Management Services

We continue to build new integrated health management service systems from offline to online by focusing on the health of employees and users. As of December 31, 2023, we had 9 medical institutions in 9 cities across the country, which were mainly located in the Eastern China, Northern China and Southern China.

During the Reporting Period, we further studied and tapped into the health needs of employees and constantly sought innovations in our health management service model. We provided individual users with report interpretation, health consultation and health education services, conducted hierarchical management on important abnormal results, and delivered personalized, more targeted and more professional medical and care services by matching the medical specialists and nurses at large-sized hospitals to users' needs through our platform. During the Reporting Period, in light of user experience, we put forward a value proposition "Staying on top of your health, setting your heart at ease (掌握健康 予您心安)" in our health management services. By focusing on furnishing "better medical quality, product experience, service processes, physical service environment, and health screening experience", we brought users integrated health management services from offline to online with higher quality and more convenience.

During the Reporting Period, we constantly followed the dual-market expanding strategy of acquiring both institutional and individual clients, continued to cement cooperation with institutional clients, and actively explored new online sales channels. Premium health management services serve as a benefit to improve their employees' physical and mental health and happiness. During the Reporting Period, we continued to strengthen cooperation with institutional clients while prioritizing the development of large and medium-sized institutional clients, providing them with more comprehensive and diverse employee health management solutions.

During the Reporting Period, as the COVID-19 pandemic prevention and control measures were fully lifted across China, our health management services gradually returned to normal operation. During the Reporting Period, the volume of health management services was 590,000, representing an increase of 22.5% as compared to the same period of the previous year (2022: 480,000); institutional clients were the main customer base of our health management services, accounting for approximately 88.3%. During the Reporting Period, the volumes of our health management services to institutional and individual clients were 520,000 and 70,000 respectively (2022: 410,000 and 70,000 respectively), representing an increase of 26.4% and maintaining basically unchanged as compared to the same period of the previous year respectively.

As of December 31, 2023, leveraging our professional service capabilities cultivated and experience accumulated in the field of health management services, the accumulated number of institutional clients under our health management services reached 7,441. The retention rate of our institutional clients in 2023 was 78% (2022: 68%).

During the Reporting Period, revenue generated from health management services was RMB245.9 million, representing an increase of 17.6% from RMB209.2 million in the same period of the previous year. The following table sets forth a breakdown of our revenue from health management services by type of customer for the periods indicated:

	Year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Institutional clients	214,341	87.2	179,372	85.7
Individual clients	31,574	12.8	29,827	14.3
Total	<u>245,915</u>	<u>100.0</u>	<u>209,199</u>	<u>100.0</u>

Smart Healthcare Products

In 2023, we continued to offer smart healthcare products based on institutional setting and individual setting to meet various healthcare needs under different scenarios including grassroots communities, workplaces and families. Leveraging our capabilities to connect and integrate “products + services”, we provided more users with healthcare services. During the Reporting Period, we focused on strengthening the connection of products and services under the enterprise health management scenario to help enterprises better maintain the health of employees, thus having gained the favor of more enterprise customers.

During the Reporting Period, the revenue generated from smart healthcare products was RMB36.5 million, representing a decrease of 83.3% from RMB218.0 million in the same period of the previous year, mainly attributable to the decrease in the number of projects we delivered during the year. Such decrease was driven by the decrease or postpone in providing smart healthcare products by our customers at the primary medical institutions, while we had also become more selective in project bidding in 2023. Certain customers reduced purchases of, or postponed project bidding in relation to purchases of smart healthcare products in 2023, as they allocated less budget to such purchases during the post-pandemic transition and the post-epidemic era. The following table sets forth a breakdown of our revenue from smart healthcare products by setting for the periods indicated:

	Year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Smart healthcare products targeted at institutional settings	36,057	98.8	215,930	99.0
Smart healthcare products targeted at individual settings	434	1.2	2,083	1.0
Total	<u>36,491</u>	<u>100.0</u>	<u>218,013</u>	<u>100.0</u>

II. BUSINESS PROSPECTS

The People’s Republic of China (the “**PRC**”) government is the regulator and payer of China’s health industry, and medical institutions and users are the supply and demand parties of medical services. We will adhere to the strategy model of “city-specific cloud hospital platform” and continue to help improve the productivity and efficiency of the healthcare system, ultimately providing users with more sustainable, convenient and quality healthcare services.

We will continue to optimize the business structure, and focus on the synergistic development of “medical care, nursing service and health care” businesses. In terms of cloud hospital platform services, we will fully implement the strategy of “cost-saving and profit-increasing”, continuously optimize product experience through productization and digitalization, and continue to strengthen products’ functionality by combining with cutting-edge technologies such as artificial intelligence, so as to enhance the competitiveness of cloud medical platforms. In terms of Internet medical services and home care services, we will continue to build a new integrated healthcare service system from offline to online that manages the whole-cycle process covering pre-hospital, in-hospital and post-hospital. In terms of health management, we will constantly strengthen corporate health management operations to meet the diversified needs concerning the health of employees. In terms of smart healthcare products, we will continue to strengthen the connection of “products + services” to provide more comprehensive intelligent solutions for enterprises and individuals.

2024 is not only a crucial year for the implementation of the “14th Five-Year” Plan, but also an important year for reform and innovation, foundation consolidation and comprehensive improvement of the health cause. We will continue to pull together to provide quality services for all participants in the medical industry, deliver high-quality healthcare services for the society and promote the innovation of new healthcare models such as home medical care, boosting the integration and implementation of two strategies, Digital China and Healthy China.

III. FINANCIAL REVIEW

Revenue from Contracts with Customers

Our revenue decreased by 21.8% to RMB537.7 million for the year ended December 31, 2023 from RMB687.4 million for the year ended December 31, 2022, mainly attributable to a decrease in the revenue from cloud hospital platform services and smart healthcare products.

Cloud hospital platform services

Revenue generated from our cloud hospital platform services segment decreased by 20.1% to RMB97.8 million for the year ended December 31, 2023 from RMB122.4 million for the year ended December 31, 2022, primarily because of fewer project opportunities and delays in project execution with local governments during the post-pandemic era.

Internet medical services

Revenue generated from our Internet medical services segment increased by 14.3% to RMB157.6 million for the year ended December 31, 2023 from RMB137.8 million for the year ended December 31, 2022, mainly attributable to (1) we continued to optimize the business structure, increased cooperation with provincial health administrative departments and rapidly expanded the home care services, with revenue from the home care business increasing by 279.2%; (2) demands from primary medical institutions increased, with revenue from remote medical services increasing by 30.3%.

Health management services

Revenue generated from our health management services segment increased by 17.6% to RMB245.9 million for the year ended December 31, 2023 from RMB209.2 million for the year ended December 31, 2022, mainly attributable to the recovery of our health management service business, as we suspended the operations of our health management centers in the first half of 2022 as affected by the COVID-19 pandemic, whereas we resumed normal operations at our health management centers in 2023.

Smart healthcare products

Revenue generated from our smart healthcare products segment decreased by 83.3% to RMB36.5 million for the year ended December 31, 2023 from RMB218.0 million for the year ended December 31, 2022, mainly attributable to the decrease in the number of projects we delivered during the year. Such decrease was driven by the decrease or postpone in providing smart healthcare products by our customers at the primary medical institutions, while we had also become more selective in project bidding in 2023. Certain customers reduced purchases of, or postponed project bidding in relation to purchases of smart healthcare products in 2023, as they allocated less budget to such purchases during the post-pandemic transition and the post-pandemic era.

Cost of Sales and Services

Our cost of sales and services decreased by 28.1% to RMB373.1 million for the year ended December 31, 2023 from RMB519.0 million for the year ended December 31, 2022, mainly in line with the decrease in the revenue from contracts with customers on smart healthcare products and cloud hospital platform services.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by 2.3% to RMB164.6 million for the year ended December 31, 2023 from RMB168.5 million for the year ended December 31, 2022.

During the Reporting Period, the gross profit margins of cloud hospital platform services, Internet medical services, health management services and smart healthcare products were 45.1%, 12.1%, 38.8% and 16.5%, respectively (2022: 46.2%, 12.2%, 37.1% and 8.0%). Our gross margin increased to 30.6% for the year ended December 31, 2023 from 24.5% for the year ended December 31, 2022, mainly attributable to (i) our optimization of business structure to increase the portion of Internet healthcare service and health management services; and (ii) in terms of market competition strategy, we made more careful selection of project bidding, and placed greater weight on the profitability of the project during the project evaluation process.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 23.7% to RMB96.3 million for the year ended December 31, 2023 from RMB126.1 million for the year ended December 31, 2022, mainly attributable to the decreases in: (i) our employee benefits expenses and travelling, entertainment and general office expenses, primarily due to a decrease in the number of our selling and marketing personnel; and (ii) our share-based compensation, as we granted pre-IPO share option scheme options before July 2021 and recognized a majority of share-based compensation expenses payable to selling and marketing personnel by the end of 2022.

Research and Development Expenses

Our research and development expenses decreased by 29.6% to RMB55.6 million for the year ended December 31, 2023 from RMB79.0 million for the year ended December 31, 2022, mainly attributable to the decreases in: (i) our employee benefits expenses and travelling, entertainment and general office expenses, primarily due to a decrease in the number of our research and development personnel; and (ii) our share-based compensation, as we granted pre-IPO share option scheme options before July 2021 and recognized a majority of share-based compensation expenses payable to research and development personnel by the end of 2022.

Administrative Expenses

Our administrative expenses decreased by 15.1% to RMB118.4 million for the year ended December 31, 2023 from RMB139.4 million for the year ended December 31, 2022, mainly attributable to the decrease in our share-based compensation, as we granted pre-IPO share option scheme options before July 2021 and recognized a majority of share-based compensation expenses payable to administrative personnel by the end of 2022, partially offset by an increase in listing expenses.

Other Income

Our other income (mainly government grants) decreased by 78.0% to RMB4.2 million for the year ended December 31, 2023 from RMB18.9 million for the year ended December 31, 2022, mainly attributable to decreased government grants.

Other Losses, Net

Our net other losses remained relatively stable at RMB1.6 million for the year ended December 31, 2023, compared to RMB1.8 million for the same period in 2022.

Finance Costs, Net

Our net finance costs decreased by 13.1% to RMB33.1 million for the year ended December 31, 2023 from RMB38.1 million for the year ended December 31, 2022, mainly attributable to a decrease in interest expenses related to redeemable rights, partially offset by an increase in interest costs on bank borrowings.

Share of Losses from Investments Accounted for Using the Equity Method

Our share of losses from investments accounted for using the equity method remained relatively stable at RMB4.9 million for the year ended December 31, 2023, compared to RMB4.8 million for the same period in 2022.

Income Tax Expense

Our income tax expense increased by 46.5% to RMB7.3 million for the year ended December 31, 2023 from RMB5.0 million for the year ended December 31, 2022, mainly attributable to (i) the increase in the number of our profitable subsidiaries or consolidated affiliated entities during the Reporting Period; (ii) the increase in the profit scale of these subsidiaries or consolidated affiliated entities with the continuous development of business.

Loss for the Year

As a result of the foregoing, our loss for the Reporting Period decreased by 36.3% to RMB154.9 million for the year ended December 31, 2023 from RMB243.3 million for the year ended December 31, 2022.

Adjusted Net Loss

To supplement our consolidated statement of profit or loss which is presented in accordance with HKFRS, we use adjusted net loss for the Reporting Period (non-HKFRS measure) as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRS. We believe that the presentation of such non-HKFRS measures when shown in conjunction with the corresponding HKFRS measures provides useful information to potential investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain items, such as share-based compensation expenses and interest expenses for financial liability for redeemable rights. The use of the non-HKFRS measures has limitations as an analytical tool, and investors should not consider it in isolation from, or as a substitute for or superior to, the analysis of our results of operations or financial condition as reported under HKFRS. In addition, the non-HKFRS measures may be defined differently from similar terms used by other companies.

The following table reconciles our adjusted net loss for the period (non-HKFRS measure) to the most directly comparable financial measure in accordance with HKFRS for the periods indicated:

	Year ended December 31,	
	2023	2022
	<i>(RMB in thousands)</i>	
Loss for the year	(154,892)	(243,260)
Add: Share-based compensation expenses	29,822	79,176
Add: Interest expenses for financial liability for redeemable rights	9,677	17,162
Adjusted net loss for the year (non-HKFRS measure)	(115,393)	(146,922)

The non-HKFRS measure, adjusted net loss for the year, used by us has been adjusted for (i) share-based compensation expenses and (ii) interest expenses for financial liability for redeemable rights. In particular, the share-based compensation expenses are a non-cash expense arising from granting share-based awards to selected employees. Meanwhile, the redeemable rights arose from an investment agreement entered into by the Company and a certain investor in round C Pre-IPO investments of the Company, pursuant to which the Company has an obligation to repurchase its ordinary shares issued to such investor. The redeemable rights are recognized as a financial liability and such recognition will be automatically terminated upon the Listing. We are not expected to have any additional interest expenses for financial liability for redeemable rights.

Our adjusted net loss (non-HKFRS measure) decreased from RMB146.9 million for the year ended December 31, 2022 to RMB115.4 million for the year ended December 31, 2023. The decrease in our adjusted net loss (non-HKFRS measure) for the year ended December 31, 2023 was mainly due to (i) the decrease in our selling and marketing expenses, research and development expenses and administrative expenses after optimizing our business structure and resource investment; (ii) the decrease in our net impairment losses on financial assets; and (iii) the partial offset of adjusted net loss by the decrease in other income.

Contingent Liabilities

As of December 31, 2023, we were not involved in any material legal, arbitration or administrative proceedings that were expected to materially and adversely affect our financial condition or results of operations.

As of December 31, 2023, we did not have any significant contingent liabilities. In addition, we did not have any material mortgages, pledges, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of December 31, 2023.

Capital Expenditures

During the Reporting Period, we incurred capital expenditures of RMB4.3 million mainly for purchases of property, plant and equipment (for the year ended December 31, 2022: RMB7.3 million).

Pledge of Assets

As of December 31, 2023, the Group did not pledge any assets.

Future Plans for Material Investments or Capital Asset

Save as disclosed under the section headed “Future Plans and Use of Proceeds” to the Prospectus of the Company dated September 18, 2023, as of December 31, 2023, the Group did not have any other plans for material investments or capital assets.

Liquidity and Capital Resources

Historically, we have funded our working capital primarily from bank borrowings and equity financing. As of December 31, 2023, we had cash and cash equivalents of RMB676.8 million. We expect to use a portion of the proceeds from the Global Offering (as defined in the prospectus of the Company dated September 18, 2023) to fund our working capital requirements. We currently do not have any plans for material additional external financing.

The following table sets forth our cash flows for the years indicated:

	Year ended December 31,	
	2023	2022
	<i>(RMB in thousands)</i>	
Operating cash flows before movements in working capital	(45,025)	(80,089)
Movements in working capital	24,955	4,547
Interest received	3,354	1,959
Income taxes paid	(3,442)	(245)
Net cash used in operating activities	(20,158)	(73,828)
Net cash used in investing activities	(146,597)	(8,445)
Net cash generated from financing activities	504,768	64,624
Net increase/(decrease) in cash and cash equivalents	338,013	(17,649)
Cash and cash equivalents at the beginning of the year	350,748	364,737
Effects of exchange rate changes on cash and cash equivalents	(11,967)	3,660
Cash and cash equivalents at the end of the year	676,794	350,748

Net cash used in operating activities

Our cash flows from operating activities reflect our loss before taxation adjusted for: (i) non-cash and non-operating items (such as depreciation and amortization, share-based compensation, and financial income and costs); (ii) the effects of movements in working capital (such as changes in inventories, provisions, as well as operating assets and liabilities); and (iii) other cash items (such as interest received and income tax paid).

For the year ended December 31, 2023, we had net cash used in operating activities of RMB20.2 million, which represents our loss before income tax of RMB147.6 million, as adjusted by non-cash and non-operating items, and movements in working capital of: (i) a decrease of RMB46.7 million in other operating assets, mainly due to the decrease in long-term trade receivables as of December 31, 2023.

Net cash used in investing activities

For the year ended December 31, 2023, we had net cash used in investing activities of RMB146.6 million, which was primarily attributable to (i) payment for our purchases for property, plant and equipment of RMB4.3 million, and (ii) subscription amount for our wealth management products of RMB141.7 million.

Net cash generated from financing activities

For the year ended December 31, 2023, we had net cash generated from financing activities of RMB504.8 million, which was primarily attributable to (i) contributions from shareholders of RMB567.6 million; (ii) payments for interests of RMB25.2 million and (iii) payments of lease liabilities of RMB26.9 million.

Borrowings

As of December 31, 2023, the aggregate principal balance of our borrowings was RMB509.4 million. As of December 31, 2023, RMB102.5 million of our banking facilities remained unutilized.

As of December 31, 2023, all of our non-current borrowings and substantially all of our current borrowings were bank loans. The maturity dates of our outstanding borrowings ranged from 2024 to 2025.

Significant Investments Held

For the year ended December 31, 2023, our Company did not hold any significant investments (including any investment in an investee company with a value of 5% or more of the Group's total assets as of December 31, 2023). For cash management purpose, we subscribed for certain wealth management products with financial institutions. During the Reporting Period, and as at the date of this announcement, none of the subscriptions of such wealth management products with a single financial institution was required to be disclosed under Chapter 14, Chapter 14A or paragraph 32(4A) of Appendix D2 of the Listing Rules.

Capital Commitments

As of December 31, 2023, we had no material capital commitments.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

For the year ended December 31, 2023, our Company did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

RISK MANAGEMENT

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of our Company and the subsidiaries operating in the PRC is Renminbi. We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and try to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

We operate mainly in the PRC with most of the transactions settled in US dollar and Renminbi respectively as the reporting currency. Our management considers that our business is not exposed to any significant foreign exchange risk as we have no significant financial assets or liabilities denominated in currencies other than the respective functional currencies of our entities. As of December 31, 2023, our Company did not hold any financial instruments for hedging purposes.

Cash Flow and Fair Value Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for the investments in wealth management products.

Gearing Ratio

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided on total equity. Net debt is calculated as total liabilities which are considered as borrowings less cash and cash equivalents. As at December 31, 2023, the Group had a net asset and the gearing ratio was not applicable.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S LISTED SECURITIES

From September 28, 2023 (the "**Listing Date**") to the date of this results announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

EMPLOYEES AND REMUNERATION POLICIES

As of December 31, 2023, the Company had 962 full-time employees, all of whom are based in China. The following table sets forth the breakdown of the Company's employees by function as of December 31, 2023:

Function	Number of Employees	% of Total
Management and administration	155	16.1
Sales and marketing and operational support	298	31.0
Research and development	139	14.4
Health management	370	38.5
Total	962	100.0

As of December 31, 2023, the compensation and benefits expenses of the Company paid to our employees were RMB193.5 million (2022: RMB223.5 million). Among all of the Company's 962 employees as of December 31, 2023, 531 employees had bachelor's degrees or above, accounting for 55.2% of the Company's total employees.

The Company is committed to establishing competitive and fair remuneration. In order to effectively motivate the Company's employees, the Company continually refines its remuneration and incentive policies through market research. The Company conducts performance evaluation for employees semi-annually to provide feedback on their performance. Compensation for employees typically consists of basic salary and a performance-based bonus. We also adopted two share option schemes to enhance enthusiasm, sense of responsibility and sense of mission of our employees, and thereby coordinate interests of our employees with the interests of our Company.

We provide social insurance plans and housing provident funds in accordance with applicable PRC laws and regulations to our employees. We pay great attention to our employees' welfare, and continually improve our welfare system. We offer employees additional benefits such as annual leave, stipend, supplementary medical insurance, annuity, health examinations and medical insurance for family members, among other things.

The Group provides employees with adequate job training to equip them with practical knowledge and skills. The Company also conducts introductory training for new staff.

As of the date of this results announcement, the Company did not have any strikes, protests or other material labor conflicts that may materially impair the Company's business and image.

EVENTS AFTER THE REPORTING PERIOD

After the Reporting Period and up to the date of this results announcement, there have been no significant event which had materially affected the Group's business operations and finances.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to protect the interests of its Shareholders and to enhance corporate value and accountability. The Company has adopted the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix C1 to the Listing Rules as the basis for the Company's corporate governance practices. As the Company's shares were listed on the Stock Exchange on the Listing Date, the principles and code provisions of the CG Code apply to the Company with effect from the Listing Date. The Company has complied with the applicable code provisions under the CG Code since the Listing Date and up to the end of the Reporting Period.

PROCEEDS FROM THE GLOBAL OFFERING

On September 28, 2023, the Shares of our Company were listed on the Main Board of the Stock Exchange, with a total of 133,805,500 Shares issued at an offer price of HK\$4.76. The net proceeds from the Global Offering, after deducting the underwriting commissions and other offering expenses payable by us in connection with the Global Offering, were approximately HK\$554.5 million (the over-allotment option was not exercised), which will be used in accordance with the use of proceeds as disclosed in the Prospectus from the Listing Date as follows:

- approximately 30% of the net proceeds, for expansion of city-specific cloud hospital platforms to enlarge our medical networks and user base;

- approximately 25% of the net proceeds, for enriching our offerings across the industry value chain to provide more professional and diversified healthcare services;
- approximately 25% of the net proceeds, for research and development on technology infrastructure and data capabilities;
- approximately 10% of the net proceeds, for potential mergers and acquisitions opportunities;
- approximately 10% of the net proceeds, for working capital and other general corporate purposes.

As of the end of the Reporting Period, our Company has not utilized any net proceeds from the Global Offering. There has been no change in the intended use of net proceeds disclosed in the Prospectus, and our Company plans to gradually utilize the net proceeds in accordance with such intended purposes depending on actual business. It is expected that the proceeds for each purpose listed above from the Global Offering will be fully utilized by the end of 2028.

FINAL DIVIDEND

The Board has resolved not to recommend the distribution of a final dividend for the year ended December 31, 2023.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix C3 of the Listing Rules as its code of conduct regarding directors’ securities transactions. As the Company’s shares were listed on the Stock Exchange on the Listing Date, the Model Code shall apply to the Company from the Listing Date. Having made specific enquiries to all of the Directors, all Directors confirmed that they have fully complied with all relevant requirements set out in the Model Code from the Listing Date to the end of the Reporting Period.

SCOPE OF WORK OF AUDITOR

The figures contained in the Group’s consolidated statement of financial position, consolidated statement of comprehensive loss and related notes for the year ended December 31, 2023 as set out in this results announcement have been approved by the Group’s auditor, PricewaterhouseCoopers, and correspond to those contained in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

AUDIT COMMITTEE

The audit committee of our Company (the “**Audit Committee**”) comprises one non-executive Director, namely Dr. CHEN Lianyong, and two independent non-executive Directors, namely Dr. CHEN Yan and Dr. YIN Guisheng. Dr. CHEN Yan is the chairman of the Audit Committee. The Audit Committee of our Company has reviewed the annual results of our Company for the year ended December 31, 2023, and the accounting principles and practices adopted by our Company, and has discussed relevant internal control, risk management and financial reporting with the management. The Audit Committee believes that the Company’s consolidated annual results for the year ended December 31, 2023 are in compliance with relevant accounting standards, laws and regulations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	<i>3</i>	537,715	687,415
Cost of sales and services	<i>3,4</i>	(373,106)	(518,965)
Gross profit		164,609	168,450
Selling and marketing expenses	<i>4</i>	(96,251)	(126,066)
Research and development expenses	<i>4</i>	(55,580)	(78,959)
Administrative expenses	<i>4</i>	(118,404)	(139,396)
Net impairment losses on financial assets		(6,538)	(36,652)
Other income		4,156	18,926
Other losses – net		(1,640)	(1,780)
Operating loss		(109,648)	(195,477)
Finance income		5,220	4,811
Finance costs		(38,283)	(42,880)
Finance costs – net	<i>5</i>	(33,063)	(38,069)
Share of losses from investments accounted for using the equity method		(4,925)	(4,762)
Loss before income tax		(147,636)	(238,308)
Income tax expense	<i>6</i>	(7,256)	(4,952)
Loss for the year		(154,892)	(243,260)
Loss attributable to:			
Owners of the Company		(154,652)	(241,967)
Non-controlling interests		(240)	(1,293)
		(154,892)	(243,260)
Other comprehensive loss:			
<i>Items that will be reclassified to profit or loss:</i>			
Currency translation differences of the Company's subsidiaries		(177)	778
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation differences of the Company		(13,776)	(15,226)
Other comprehensive loss for the year, net of tax		(13,953)	(14,448)
Total comprehensive loss for the year		(168,845)	(257,708)
Total comprehensive loss for the year attributable to:			
Owners of the Company		(168,605)	(256,415)
Non-controlling interests		(240)	(1,293)
		(168,845)	(257,708)
Loss per share, basic and diluted (RMB)	<i>7</i>	(0.23)	(0.39)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment		28,902	28,789
Right-of-use assets		81,939	52,271
Intangible assets		3,184	3,847
Deferred income tax assets		596	1,189
Investments accounted for using the equity method		186,993	191,918
Long-term trade receivables	8	10,073	19,309
Prepayments		14	718
Total non-current assets		<u>311,701</u>	<u>298,041</u>
Current assets			
Inventories		38,096	18,453
Assets recognized from costs to fulfil contracts	3	7,321	8,768
Contract assets	3	6,080	6,621
Trade receivables	9	151,809	151,143
Financial assets at fair value through profit or loss		144,205	–
Other receivables		47,737	31,766
Prepayments		6,089	12,059
Other current assets		6,505	55,830
Cash and cash equivalents		676,794	350,748
Restricted deposits		1,674	1,016
Total current assets		<u>1,086,310</u>	<u>636,404</u>
Total assets		<u><u>1,398,011</u></u>	<u><u>934,445</u></u>
Share capital		1,125	940
Share premium		2,543,431	1,928,654
Treasury shares		–	(368,913)
Other reserves		340,865	284,978
Accumulated losses		(2,457,277)	(2,297,635)
		428,144	(451,976)
Non-controlling interests		<u>5,589</u>	<u>5,808</u>
Total shareholders' equity/(deficit)		<u><u>433,733</u></u>	<u><u>(446,168)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Notes</i>	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Liabilities			
Non-current liabilities			
Borrowings		269,850	509,420
Long-term trade payables		–	1,900
Lease liabilities		62,072	35,114
Contract liabilities	3	14,486	10,951
Deferred income		4,420	6,680
Deferred income tax liabilities		602	267
Financial liability for redeemable rights		–	356,228
		<hr/>	<hr/>
Total non-current liabilities		351,430	920,560
Current liabilities			
Short-term borrowings		240,135	280
Contract liabilities	3	31,802	40,857
Trade payables	10	238,652	234,110
Other payables and accruals		68,816	155,443
Lease liabilities		27,708	26,510
Income tax payables		5,699	2,820
Other current liabilities		36	33
		<hr/>	<hr/>
Total current liabilities		612,848	460,053
		<hr/>	<hr/>
Total liabilities		964,278	1,380,613
		<hr/> <hr/>	<hr/> <hr/>
Total shareholders' deficit and liabilities		1,398,011	934,445
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

NEUSOFT XIKANG HOLDINGS INC. (the “Company”) was incorporated in the Cayman Islands on 12 May 2011 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

The Company, an investment holding company and its subsidiaries (together, the “Group”) are principally engaged in provision of the following services: (i) Cloud hospital platform services; (ii) Internet medical services; (iii) Health management services; and (iv) Smart healthcare products in the People’s Republic of China (the “PRC”).

The Company completed its IPO and listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited (“HKSE”) on 28 September 2023 (the “Listing”).

These financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

2.1 Basis of Preparation

(i) *Compliance with HKFRS and disclosure requirements of HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) as issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

HKFRS comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants.

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities – measured at fair value or revalued amount.

2.2 Changes in Accounting Policies

(i) *New and amended standards adopted by the Group*

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on or after 1 January 2023 are consistently applied to the Group throughout the reporting period.

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(ii) New and amended standards and interpretations not yet adopted

The following certain amendments to accounting standards and interpretation have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group. These amendments are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to HKAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to HKFRS 16	Lease liability in a sale and leaseback	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier finance arrangements	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements	1 January 2024
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Group. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Cloud hospital platform services
- Internet medical services
- Health management services
- Smart healthcare products

	2023				
	Cloud hospital platform services RMB'000	Internet medical services RMB'000	Health management services RMB'000	Smart healthcare products RMB'000	Total RMB'000
Revenue from contracts with customers	97,755	157,554	245,915	36,491	537,715
Cost of sales and services	<u>(53,716)</u>	<u>(138,504)</u>	<u>(150,432)</u>	<u>(30,454)</u>	<u>(373,106)</u>
Gross profit	<u>44,039</u>	<u>19,050</u>	<u>95,483</u>	<u>6,037</u>	<u>164,609</u>
	2022				
	Cloud hospital platform services RMB'000	Internet medical services RMB'000	Health management services RMB'000	Smart healthcare products RMB'000	Total RMB'000
Revenue from contracts with customers	122,369	137,834	209,199	218,013	687,415
Cost of sales and services	<u>(65,830)</u>	<u>(121,021)</u>	<u>(131,606)</u>	<u>(200,508)</u>	<u>(518,965)</u>
Gross profit	<u>56,539</u>	<u>16,813</u>	<u>77,593</u>	<u>17,505</u>	<u>168,450</u>

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns majority of the revenues from external customers located in the PRC.

The Group derives revenue from the transfer of goods and services over time and at a point in time as follows:

	2023 RMB'000	2022 RMB'000
Segment revenue		
– recognized over time	22,732	19,700
– recognized at a point in time	<u>514,983</u>	<u>667,715</u>
	<u>537,715</u>	<u>687,415</u>

(b) Contract related assets and contract liabilities

The Group has recognized the following contract related assets and liabilities:

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Contract assets (i)		
Cloud hospital platform services	6,261	4,694
Smart healthcare products	1,581	4,311
	<hr/>	<hr/>
Less: allowance for impairment of contract assets	(1,762)	(2,384)
	<hr/>	<hr/>
	6,080	6,621
	<hr/> <hr/>	<hr/> <hr/>
Contract liabilities (ii)		
Cloud hospital platform services	5,899	5,156
Internet medical services	1,998	2,485
Health management services	37,177	41,448
Smart healthcare products	1,214	2,719
Less: contract liabilities (non-current)	(14,486)	(10,951)
	<hr/>	<hr/>
	31,802	40,857
	<hr/> <hr/>	<hr/> <hr/>
Assets recognized from costs to fulfil a contract (iii)		
Cloud hospital platform services	7,321	8,768
	<hr/> <hr/>	<hr/> <hr/>

- (i) Contract assets are the Company's right to consideration in exchange for goods or services that the Company has transferred to the customer.
- (ii) Contract liabilities mainly arise from the advanced payments from customers of the i) cloud hospital platform services, ii) internet medical services, iii) health management services, and iv) smart healthcare products upon which the performance obligations have been established while the underlying services are yet to be provided.
- (iii) The costs relate directly to the contract, generate resources that will be used in satisfying the contract and are expected to be recovered. They were therefore recognized as asset from costs to fulfil contracts. For the years ended 31 December 2023 and 2022, assets recognized as cost are RMB33.7 million and RMB47.9 million, respectively.

4 EXPENSES BY NATURE

Expenses included in cost of sales and services, selling and marketing expenses, administrative expense and research and development expenses are further analysed as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Employee benefits expenses	193,492	223,506
Cost of sales of hardware, software, raw materials and others	306,261	450,100
Share-based compensation expenses	29,822	79,176
Travelling, entertainment, service fee and general office expenses	24,224	33,251
Depreciation of property, plant and equipment	10,002	12,138
Depreciation of right-of-use assets	22,965	21,096
Taxes and surcharges	756	1,140
Amortization of intangible assets	736	786
Auditors' remuneration	2,780	516
– Audit services	2,580	455
– Non-audit services	200	61
Other professional services expenses	2,610	2,352
Short-term leases expenses	6,792	5,293
Equipment lease expenses	5,801	7,845
Promotion and advertising expenses	5,678	8,783
Listing expenses	21,270	9,560
Others	10,152	7,844
	<u>643,341</u>	<u>863,386</u>

5 FINANCE INCOME AND COSTS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Finance income		
– Interest income	<u>5,220</u>	<u>4,811</u>
Finance costs		
– Interest costs on bank borrowings	(25,159)	(23,417)
– Interest costs on lease liabilities	(3,447)	(2,301)
– Interest expenses for financial liability for redeemable rights	<u>(9,677)</u>	<u>(17,162)</u>
	<u>(38,283)</u>	<u>(42,880)</u>
Finance cost – net	<u>(33,063)</u>	<u>(38,069)</u>

6 INCOME TAX EXPENSE

(a) Income tax expense

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current income tax expense (i)	6,328	3,059
Deferred income tax expense (ii)	928	1,893
	<u>7,256</u>	<u>4,952</u>

The income tax expense or credit is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

- (i) The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.
- (ii) Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The Group's principal applicable taxes and tax rates are as follows:

Cayman Islands

The Company is incorporated as an exempted company with limited liability under the Companies Act of the Cayman Islands and is not subject to Cayman Islands income tax.

Hong Kong

Subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million.

No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the year ended 2023 and 2022.

Mainland China

The income tax provision of the Group in respect of its operations in the PRC was subject to statutory tax rate of 25% on the assessable profits for the Relevant Period, based on the existing legislation, interpretations and practices in respect thereof.

On 15 November 2022, Neusoft Xikang Healthcare Technology Co., Ltd. was qualified as “High and New Technology Enterprises” (“HNTes”) under the relevant PRC laws and regulations. Accordingly, the entity was entitled to a preferential income tax rate of 15% during the year ended 2023 and 2022. This status is subject to a requirement that Neusoft Xikang Healthcare Technology Co., Ltd. reapplies for HNTes status every three years.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 onwards, enterprise engaging in research and development activities are entitled to claim 175% of their research and development expenditures incurred as tax deductible expenses when determining their assessable profits for that year.

(b) Numerical reconciliation of income tax expense

The tax on the Group’s loss before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2023 <i>RMB’000</i>	2022 <i>RMB’000</i>
Loss before income tax	<u>(147,636)</u>	<u>(238,308)</u>
Tax credits calculated at statutory tax rate of 25% (2022-25%)	(36,909)	(59,577)
Expenses not deductible for taxation purposes	21,597	52,605
Super deduction of research and development expenses	(7,690)	(8,453)
Income not subject to tax	(1,601)	(6,986)
Tax losses and temporary differences not recognized as deferred tax assets	39,302	45,854
Utilization of previously unrecognized tax losses	(6,947)	(17,188)
Effect of preferential tax rates	(502)	(350)
Effect of different tax rate	<u>6</u>	<u>(953)</u>
Income tax expense	<u><u>7,256</u></u>	<u><u>4,952</u></u>

7 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to the owners of the Company by the weighted average number of ordinary shares (exclude treasury share) in issue during the year.

The calculation of loss per share is based on the following:

	2023	2022
Loss attributable to owners of the Company for the year (RMB’000)	(154,652)	(241,967)
Weighted average number of ordinary shares in issue (’000)	<u>678,635</u>	<u>621,198</u>
Basic loss per share (RMB)	<u><u>(0.23)</u></u>	<u><u>(0.39)</u></u>

(b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2023 and 2022 were the same as the basic earnings per share as the Group incurred losses for the years, the dilutive potential ordinary share (such as restricted share units and options) were not included in the calculation of diluted loss per share because they are anti-dilutive.

8 LONG-TERM TRADE RECEIVABLES

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Long-term trade receivables from contracts with customers		
– Third parties	20,228	77,182
– Less: allowance for impairment of long-term trade receivables	(3,886)	(2,328)
– Less: other current asset	(6,269)	(55,545)
	<u>10,073</u>	<u>19,309</u>

The Group signed contracts with medical institutions in relation to the sales of smart healthcare products. According to the payment terms in the contracts, the total consideration of the sales of smart healthcare products will be collected within 3 years.

The ageing analysis of the long-term trade receivables based on invoice date is as follows:

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
– Up to 3 months	–	22,324
– 3 months to 1 year	663	14,481
– 1-2 years	9,315	40,377
– 2-3 years	10,250	–
– Less: allowance for impairment of long-term trade receivables	(3,886)	(2,328)
– Less: other current asset	(6,269)	(55,545)
Total	<u>10,073</u>	<u>19,309</u>

9 TRADE RECEIVABLES

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Trade receivables from contracts with customers		
– Third parties	236,869	236,810
– Related parties	9,369	10,972
Less: allowance for impairment of trade receivables	(94,429)	(96,639)
	<u>151,809</u>	<u>151,143</u>

The credit terms given to trade customers are determined on an individual basis. The normal credit period of trade receivables related to internet medical services and health management services is mainly within 90 days, while the normal credit period of trade receivables related to cloud hospital platform services and smart healthcare products are mainly within one year. The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
– Up to 3 months	58,027	91,131
– 3 months to 1 year	58,040	37,510
– 1-2 years	60,084	53,334
– 2-3 years	25,599	20,793
– 3-4 years	5,272	20,999
– 4-5 years	15,237	2,156
– Over 5 years	23,979	21,859
	<u>246,238</u>	<u>247,782</u>
Less: allowance for impairment of trade receivables	<u>(94,429)</u>	<u>(96,639)</u>
Total	<u><u>151,809</u></u>	<u><u>151,143</u></u>

(a) Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year and therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

(b) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

10 TRADE PAYABLES

Ageing analysis of the trade payables are as follows:

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
– Up to 3 months	91,783	144,580
– 3 to 6 months	40,006	10,613
– 6 months to 1 year	44,136	26,838
– 1 to 2 years	45,896	40,463
– 2 to 3 years	15,408	9,354
– 3 to 4 years	916	1,391
– 4 to 5 years	97	354
– over 5 years	410	517
	<u>238,652</u>	<u>234,110</u>

Trade payables represent liabilities for goods and services provided to the Group which are unpaid. The amounts are unsecured and are usually paid within 180 days of recognition. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

The carrying amounts of trade payables are considered to be approximated to their fair values, due to their short-term nature.

11 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2023 and 2022.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <https://www.xikang.com>. The annual report of the Company for the year ended December 31, 2023 will be published on the aforesaid websites of the Stock Exchange and the Company in due course.

By Order of the Board
NEUSOFT XIKANG HOLDINGS INC.
Dr. LIU Jiren
Chairman and Non-Executive Director

Shenyang, the PRC, March 20, 2024

As at the date of this announcement, the board of directors of the Company comprises Ms. ZONG Wenhong as an executive Director; Dr. LIU Jiren, Mr. XU Hongli, Dr. WANG Nan, Mr. PU Chengchuan and Dr. CHEN Lianyong as non-executive Directors; and Dr. CHEN Yan, Dr. QI Guoxian and Dr. YIN Guisheng as independent non-executive Directors.